

## OVERVIEW OF PLAN SPONSOR SUPPLEMENTAL COVERAGE OPTIONS & TROOP

**Introduction:** One of the options available to retiree health plan sponsors under the MMA is the ability to provide coverage that supplements a retiree's Medicare prescription drug benefit. This document provides an overview of this option and describes steps CMS is taking to facilitate the coordination of such supplemental retiree coverage with plans that provide coverage under the Medicare prescription drug benefit (Part D plans). CMS anticipates publishing additional guidance at a later date.

**Overview of the Medicare Prescription Drug Benefit:** Beneficiary premiums and government subsidies for Medicare Prescription Drug Plans (PDP) or Medicare Advantage plans that include prescription drugs (MA-PD) (collectively, "Part D plans") will be determined based on a bidding process. As a result, there was a need to establish a benefit standard that would both serve as a minimum benefit and allow for comparisons across plan offering by various plan sponsors. Although drug plan sponsors may offer alternatives to the standard benefit design, any variant offered must at least be actuarially equivalent. That means, on average, it provides the same value. Sponsors can offer plans that have a value that exceeds the standard benefit. The standard benefit structure for 2006 includes:

- A deductible of \$250;
- Coinsurance of 25 percent (or actuarially equivalent co-pays) up to an initial coverage limit of \$2,250; and
- Protection against high out-of-pocket prescription drug costs, with co-pays of \$2 for generics and preferred multiple source drugs and \$5 for all other drugs, or coinsurance of 5 percent of the price, once an enrollee's true out-of-pocket spending ("TrOOP" for short) reaches a limit of \$3,600.

Cost-sharing under defined standard coverage is reduced or eliminated for enrollees who qualify for the low-income subsidy program.

Beneficiary costs for Part D drugs are only considered to be true out-of-pocket costs under two conditions. First, they must be incurred against the annual deductible (if any) or represent any applicable cost-sharing up to the out-of-pocket threshold. Second, these costs must be paid by the Part D enrollee or by another person (including a bona fide charity) on behalf of that individual or by a qualified State Pharmaceutical Assistance Program (SPAP). If cost-sharing is paid by a former employer or by government programs, it does not count toward the out-of-pocket threshold. This means the reduction in out-of-pocket payments moves the initiation point for catastrophic coverage to a higher level of total drug spending. TrOOP was introduced to give employers, unions, and other drug benefit payers an incentive to continue offering the coverage they offer now, to limit the Medicare costs that would be incurred by simply replacing existing drug coverage rather than adding to beneficiary protections.

**How Supplemental Coverage Options Help Retirees and Plan Sponsors:** The MMA's supplemental coverage options provide employer and union retiree health plans with an opportunity to give retirees access to an aggregate level of Medicare plus supplemental drug

coverage that is more generous and less costly to both plan sponsors and retirees than is possible through coverage provided by plan sponsors alone. These options are likely to be especially valuable to employer and union plan sponsors that are unable to take full advantage of the retiree drug subsidy for some or all of their retirees.

“True out-of-pocket (TrOOP) expenditures” are the drug costs paid by a Medicare enrollee, or on behalf of an enrollee by another person, a charitable organization, or a qualified State Pharmacy Assistance Program. When employers and unions provide supplemental coverage, it lowers out-of-pocket costs for retirees even though it raises the total drug spending that triggers catastrophic coverage under the Medicare drug benefit (since the costs for which the employer/union provided supplemental coverage do not count towards the out-of-pocket threshold).

CMS estimates that plan sponsors that choose to offer comprehensive drug coverage by supplementing or enhancing Part D will achieve cost savings of at least \$900 on average due to the Federal government subsidizing a significant portion of the cost of standard Part D coverage.

***Two Approaches to Supplementing Medicare Prescription Drug Benefits:*** Under MMA, retiree health plan sponsors can provide coverage that supplements Medicare prescription drug benefits in two ways. First, they can provide “integrated” supplemental coverage directly through a specific Part D plan. Under this first option, sponsors can purchase the coverage from a Part D plan, or can become a Part D plan. If the sponsor provides “integrated” supplemental coverage through a Part D plan, the enrollment of retirees in Medicare prescription drug coverage will be handled by the Part D plan. Under this “integrated” approach, the pharmacy will only need to conduct one transaction with the Part D plan; there would not be separate Medicare drug benefit and supplemental plan transactions.

When an employer or union elects to sponsor retiree coverage through a Part D plan, the employer, union or entity seeking to offer or administer such coverage may submit a written request to CMS for permission to waive requirements that hinder the design of, offering of, or enrollment in such coverage. Additional guidance on waivers will be provided to assist sponsors in evaluating this option.

In contrast, when plan sponsors choose to offer a separate “stand-alone” supplemental plan, they or their plan administrators will only handle enrollment for the supplemental coverage; retirees will be responsible for enrolling in the Part D plan of their choice. CMS is sensitive to the concerns of plan sponsors regarding the operational challenges of stand-alone supplemental plans coordinating benefits with Part D plans and is committed to providing effective facilitation of coordination of benefits activities. For example, we are working to help facilitate the development of a computer switching system that would efficiently coordinate claims while providing strong beneficiary protections, using the same kind of tools now provided to support electronic prescription drug transactions for hundreds of millions of Americans. The goal would be to coordinate claims in real time. To get information on Coordination of Benefits Agreements (COBAs), employer and union retiree health plan sponsors and their plan administrators should go to: <http://www.cms.hhs.gov/medicare/cob/coba/coba.asp>. The COBA website contains links to background materials, FAQs, an implementation guide, and the actual COB Agreement. We will provide additional guidance regarding these and other operational issues in the near future.

***Voluntary Data Sharing Agreements:*** CMS currently has a program that can assist plan sponsors and administrators with identifying the Medicare eligible individuals enrolled in their plans. This is a process called the Voluntary Data Sharing Agreement (VDSA) process. Employers that enter into VDSAs will be better prepared for enrolling their retirees into either an “integrated” supplemental benefit through a Part D plan, establishing a “stand-alone” supplemental plan, or applying for the retiree drug subsidy. There is no requirement that any employer enter into a VDSA; it is strictly a voluntary process. (See [http://www.cms.hhs.gov/medicare/cob/employers/emp\\_vdsa.asp](http://www.cms.hhs.gov/medicare/cob/employers/emp_vdsa.asp) for more information on VDSAs). Additionally, other existing CMS programs permit group health plans and other secondary payers to sign agreements to receive Medicare paid claims data for the purpose of calculating their secondary payment liability.

***For More Information:*** You can contact the Employer Policy & Operations Group (EPOG) at [epog@cms.hhs.gov](mailto:epog@cms.hhs.gov). To be notified by email about CMS news and activities of interest to employer and union plan sponsors, subscribe to the MMA employer/union issues listserv at <http://www.cms.hhs.gov/maillinglists/>.